DOCUMENT RESUME

ED 332 599 HE 024 560

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TITLE The New England Student Loan Survey II. Final Report.
INSTITUTION Massachusetts Higher Education Assistance Corp., Boston.; New England Education Loan Marketing Corp.
PUB DATE Mar 91
NOTE 34p.
PUB TYPE Reports - Research/Technical (143)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Consumer Economics; Followup Studies; Higher Education; *Loan Repayment; *Student Attitudes; *Student Characteristics; Student Loan Programs; Surveys

ABSTRACT

The New England Student Loan Survey (NESLS) II investigated the impact of student loans on borrowers, their consumption patterns, and their attitudes towards repayment. The 1,442 subjects, recent borrowers now repaying their student loans, included 283 high debt-low income borrowers and 207 prior defaulters now in repayment. Findings included the following: (1) over 70% said that the availability of student loans was an important factor in continuing their education beyond high school and 67% of those who completed school said that student loans enabled them to do so; (2) more than 70% of the sample said the benefits of having a student loan outweighed the drawbacks; (3) three-quarters of all borrowers said that they did not change their careers because of their student loans, while 15% percent claimed that they did; (4) the majority (70%) of the borrowers said that student loans did not prevent them from moving out of their parents' home, purchasing a home (63%), purchasing a car (69%), getting married (86%), or having children (79%), but those with higher debt levels were most likely to believe their education debt influenced these decisions. Both NESLS I and II revealed that individuals with higher debt levels are more likely than others to perceive their debts as burdensome, but debt level has little impact on consumption patterns. (LPT)

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# The New England Student Loan Survey II

**Final Report**
**March 28, 1991**

HE 024 560

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## Fact Sheet

## New England Student Loan Survey II

NESLS II investigated the attitudes of New England borrowers toward their student loan debt and the degree to which this debt affects important economic decisions. 1,442 recent borrowers now repaying their student loans completed surveys including 283 high debt-low income borrowers and 207 prior defaulters now in repayment. These figures represent a response rate of over 70 percent for those with no past history of default and 57 percent for those who had defaulted in the past. NESLS II reports:

- Over 70 percent said that the availability of student loans was an important factor in continuing their education beyond high school and 67 percent of those who completed school said that student loans enabled them to do this. About 16 percent did not feel loans were important for their post-high school education and 15 percent said they were not an important factor in undergraduate degree completion.

- The average debt burden for NESLS II borrowers is about $8,200 and they pay on average about $120 per month. As compared to 1988, there is a slight decrease in average real (i.e., inflation adjusted) debt for New England borrowers and there is no increase in average monthly payments relative to income.

- More than 70 percent of all borrowers in the sample said the benefits of having a student loan outweighed the drawbacks; about 10 percent did not feel loans were worth it; 20 percent gave neutral responses.

- Although one-fourth of all borrowers said they experienced more hardship from their student loans than they had expected, 53 percent disagreed with this.

- More than two-thirds said they understood how much debt they were accumulating but about 17 percent did not.

- Three quarters of all borrowers did not change their careers because of their student loans; about 15 percent of all borrowers said they did; and about 10 percent gave neutral responses.

- The majority of borrowers said that student loans did not prevent them from moving out of their parent's home (78 percent), purchasing a home (63 percent), purchasing a car (69 percent), getting married (86 percent), or having children (79 percent), but those with higher debt levels were most likely to believe their education debt influenced these decisions.

- Almost 90 percent of all respondents own a car and three-quarters of them live away from home.

- Both NESLS I and NESLS II show a gap between borrower student loan attitudes and behavior. That is, those with higher debt levels are more likely than others to perceive their debts as burdensome, but debt level has little impact on the consumption patterns of these borrowers.

## Education Debt Burden and Consumer Behavior

### PREFACE

How great is the impact of debt burden on college graduates? Does education debt and the obligation to pay back loans negatively influence career choices, advanced study, marriage and children, and the purchase of automobiles and homes?

Key members of Congress, as well as educators and other citizens, are concerned about these issues, especially in the context of debates about increased loan limits for the 1990s.

Obviously grant aid or scholarships are preferable to loans of any kind. But how have borrower attitudes regarding the impact of loans changed since the late 1980s?

Fortunately, research on student debt burden (NESLS I) was published three years ago, giving us a basis for comparison. In dollar terms the average debt has increased now, at least for New England students, to $8,200, up from $7,300 in 1988. After adjusting for inflation the average debt level has decreased slightly.

What is most consistent between 1988 and 1991 is that borrowers' attitudes remain about the same -- more than half feel loan payments are not a greater hardship than expected and three-quarters feel no impact on career plans or the option to move out of a parent's home. Eighty percent do not report any impact on marriage or child rearing. Most appreciate the educational advantages which accrued from loan availability.

What changed the most was actual consumption patterns. Borrowers are now more likely to:

| | |
|---|---|
| live apart from parents | 75% in 1991 -- 67% in 1988 |
| own a home | 29% in 1991 -- 19% in 1988 |
| own a car | 89% in 1991 -- 85% in 1988 |
| have borrowed to finance a car purchase | 72% in 1991 -- 66% in 1988 |
| have purchased a new car | 56% in 1991 -- 48% in 1988 |

This shows that spending patterns have not been hurt -- exactly the opposite from current worries that higher education debt would mean fewer personal or consumer

choices. Furthermore, the automobile purchases show that student loans do not "shoulder out" other forms of consumer credit.

In addition to the general population of borrowers, two subgroups were surveyed -- those with low income initially and high debt, and past defaulters, who are much less satisfied with their education, job and loan. Yet many from these subgroups also moved away from home, bought cars, and got married during the student loan repayment period.

The implications for formulating Congressional policy are fairly clear:

1. Loan limits were raised in 1986 without any severe hardship on most borrowers. These increases were very beneficial in expanding student choice.
2. Compared to 1988, average monthly payments have not increased relative to income.
3. The presumed negative relationship between student loans and career choices and consumer decisions is not nearly so prevalent as some would suggest.
   However, those planning low income public service professions such as teaching, library science and social work, may need more grants and some relief from education debt.
4. The demand and need for loan counseling and debt management assistance remain real and important.
5. Student loan borrower attitudes in New England are slightly more favorable and consumer choices noticeably more positive in 1991. Despite occasional loan servicing or default problems, the education loan program is working satisfactorily for most borrowers.

Dr. Sandy Baum, Associate Professor of Economics at Skidmore College, again contributed to the external analysis and review of these data. We hope NESLS II is useful to other states and researchers but most of all to the policymakers who will decide how best to redesign education credit assistance for the students of the 1990s.

Joseph M. Cronin, President
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Assistance Corporation

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## Introduction

The purpose of the second New England Student Loan Survey (NESLS II) is to investigate the impact of education loan debt on the attitudes and behavior of borrowers currently repaying their student loans. Several other studies have investigated the issue of educational debt and the extent to which this debt is considered to be burdensome to borrowers in repayment. Although the sample sizes and designs of these studies differ, the underlying results nevertheless show that a majority of respondents do not feel overburdened by their education loans.

For example, Joseph Boyd and Dennis Martin, in a 1985 survey for the National Association of Student Financial Aid Administrators, found loan repayment did not impose a significant burden on their respondents. The respondents in this study reported an average debt of $6,400 and an average monthly payment of $80. Boyd and Martin found that for the majority of borrowers, loan debt did not affect borrowers' decisions to get married and have children nor did loans prevent them from buying cars and purchasing homes.

In January, 1988 Sandy Baum and Saul Schwartz reported in NESLS I that nearly 70 percent of borrowers found that the benefits of an education outweighed the burden of student loan debt. The average student loan debt in New England was about $7,300 and the average monthly payment was $96. Although 30 percent said their student loans were a burden, many of the economic behaviors studied appeared relatively unaffected by them. For example, 85 percent owned an automobile and half of these vehicles had been purchased new.

The Consortium on Financing Higher Education (COFHE) surveyed the graduating class of 1989 from 15 of its member institutions and found that a majority of respondents (76 percent) claimed that education loans allowed them to obtain an education at an otherwise unaffordable institution. Moreover, the same study showed that fewer than one quarter of respondents said their education debt had a substantial effect on a decision to postpone a major purchase.

In "Debt Burden Facing College Graduates," a study prepared by Decision Resources Corporation and Westat, Inc. for the U.S. Department of Education, the results showed that repaying educational debt did not appear to be burdensome for most of the students in the study (graduates of four year institutions). For example, for 1986 college graduates, the median ratio of debt payments to gross income was approximately four percent. According to most lending criteria, a non-housing debt burden is considered burdensome when the median debt to income ratio exceeds ten percent. Based on this index, it would appear that most student loan borrowers should be able to repay their debt without undue financial hardship.

MHEAC and Nellie Mae believe it is important to evaluate federal loan policies periodically in order to help the Congress understand how this important federal program is affecting student loan recipients. Increases in the maximum amount students may borrow and changes in eligibility for federal loans have occurred since the first study. NESLS II draws its sample from a population of students, many of whom have borrowed under these new regulations. The study attempts to evaluate to what extent, if any, these changes contribute to debt burden and influence economic decisions. This information is timely and useful as Congress and the financial aid community evaluate recommendations for the student loan program for the reauthorization of the Higher Education Act.

Sample

A total of 2,200 borrowers currently in repayment were selected for the survey, 1,800 of whom entered repayment during the three year period January 1, 1986-December 31, 1988* and will still have payments to make after December 31, 1990. The sample selected at random:

1. General Population - 1,400 borrowers in repayment with no prior history of default. No restriction was placed on the income levels or monthly loan payment amounts to qualify for this group, except that the borrower could not fit the high debt-low income criteria discussed below.

* See description of prior defaulter group.

2. High debt-low income group - 400 borrowers in repayment with no prior history of default but with a real income of $15,000 or less (in 1989 $'s) at the time of loan application and a current monthly loan payment of $90 or more.

3. Prior defaulter group - 400 borrowers in repayment who have had a prior history of default but who have made at least twelve consecutive payments during the most recent period prior to sample selection. However, unlike the general population and the high debt-low income groups, some of these borrowers may have entered repayment earlier than the other borrowers in the sample. No income restriction or debt level was placed on this population.

A significant number of high debt-low income borrowers and prior defaulters were included in this study in order to ensure that the study captured borrowers who were most likely to experience burden. The additional group, prior defaulters, is a new feature added to correct a limitation of NESLS I pointed out by some critics who felt that by excluding defaulters from the sample, one eliminates those with the greatest potential debt burden. Critics may still argue that prior defaulters now making regular payments do not represent the entire defaulter population. However, the study chose to exclude other types of defaulters because NESLS II is interested in understanding the experiences of borrowers when repaying, not the experiences of borrowers who make no payments at all. Additional detail on the survey methodology is presented in Appendix 3.

Both NESLS I and NESLS II attribute their high response rates to the Dillman survey methodology (see Appendix 5). NESLS II had an overall response rate of nearly 69 percent, comparable to the first study (70 percent). The prior defaulter population was considerably less responsive (57 percent) than the other populations and lowered the overall rate for NESLS II. Without this group, the response rate was 72 percent, higher than the former study. Table 1 compares the types of samples drawn for NESLS I and II and their rates of response.

**Table 1**

**Samples and Response Rates**

| | NESLS I | NESLS II |
|---|---|---|
| Period Entered Repayment | 1982-1986 | 1986-1988 |
| General Population | | |
| # Drawn | 1,600 | 1,400 |
| % Response | 68 | 70 |
| High Debt-Low Income Group | | |
| # Drawn | 400 | 400 |
| % Response | 78 | 73 |
| Prior Defaulter Group | | |
| # Drawn | - | 400 |
| % Response | - | 57 |
| Total | | |
| # Drawn | 2,000 | 2,200 |
| # Drawn minus undeliverable surveys | 1,874 | 2,100 |
| # Returned Surveys | 1,318 | 1,442 |
| % Response (of returned) | 70 | 69 |

## Findings

Description of Respondents - This section will highlight the educational, demographic and financial aid characteristics of the 1,442 borrowers who responded to the survey. Complete detail on these respondent characteristics follows this section (Tables 2-4). Throughout the remainder of this report the high-low group refers to those respondents who are making high monthly student loan payments and came from families with low incomes:* prior defaulters refers to those who had defaulted in the past but now have resumed making regular payments. The general population is not reported separately but is combined with these two groups to produce results for all respondents.

More than three-quarters of NESLS II respondents last attended a four-year school (private - 50 percent and public - 27 percent).** Graduate school students as well as undergraduate students were included in the four-year school group. This high percentage of private schools and four-year colleges is consistent with the composition of MHEAC's student loan portfolio. Thirty-one percent of all respondents indicated that they had attended graduate school and an even higher proportion (49 percent) of those with high debt and low incomes (high-low group) had attended graduate school. Only about 8 percent of all respondents last attended a vocational or proprietary school. In comparison to the total sample, prior defaulters were more likely to have attended one of these non-traditional schools while in contrast, very few (1 percent) of those in the high debt-low income group (high-low) attended non-traditional schools. Four-fifths of the respondents attended school as full-time students. However, only about two-thirds of the prior defaulters had been full-time students.

* The data used for the study do not allow for a distinction between independent and dependent students. Some low incomes may represent earnings of independent student rather than earnings of their parents. Other study limitations appear in Appendix 10.

** Proportions reported are accurate for the sample studied and represent estimates of proportions for the entire proportion of MHEAC borrowers. For yes/no questions, these estimates are accurate within $\pm$ 3 percentage points for the general population. Because of the smaller sizes of the prior defaulter and high-low samples, simple proportions for these subgroups are accurate for the population within $\pm$ 6 percentage points.

More than half of all respondents and half of the high-low group earned a bachelor's degree. About 8 percent of all respondents and 3 percent of the high-low group earned no degree at all. Only 36 percent of the prior defaulters received a bachelor's degree and 17 percent of this group received no degree at all.

The typical NESLS II respondent left school sometime between 1985 and 1988. About 25 percent of the respondents were undergraduate business majors;* 11 percent were liberal arts majors and 8 percent studied engineering; 7 percent studied social sciences; and 7 percent studied science or math. Other majors were less common.

More than three-quarters of all respondents said they were satisfied with the education they had received. However, approximately 6 percent said they were not satisfied. Prior defaulters tended to be somewhat less satisfied than the group as a whole and the high debt-low income group (high-low) were slightly more satisfied. Almost two-thirds of all respondents and 70 percent of the high-low group felt that their education enabled them to obtain the job they expected. A substantially smaller proportion of the prior defaulters (38 percent) felt they had attained the job they had expected.

In addition to education characteristics, NESLS II obtained demographic and personal information. Ninety-five percent of the NESLS II respondents currently reside in the New England states, mainly in Massachusetts (86 percent of all respondents). With a few exceptions, the remaining respondents (5 percent) currently live in New York state. The average current income of all respondents was $23,000 (their current family income was $38,000). Prior defaulters reported a lower average income ($21,000) and those from the high-low group reported a higher income ($27,000).

Over 70 percent of all respondents were between 24 and 32 years of age. About half of all respondents were married or had partners with whom they shared financial responsibilities. A somewhat higher proportion of the prior defaulters were married.

* Refers to majors such as Finance, Accounting, Operations Research, Organizational Behavior, etc. MBA and Computer majors were coded separately.

There were more males (57 percent) than females in the sample and most (91 percent) were white. Within the prior defaulter group, there was a slightly higher proportion of blacks (6 percent) and Hispanics (4 percent) than for the sample as a whole (3 percent and 1 percent). There was a higher proportion of Asians (4 percent) in the high-low group than in the sample as a whole (2 percent).

Finally, the survey sought specific information about the amount of student loan debt and the types of financial aid used by respondents. The average total debt for all respondents was about $8,200. The figure was lower for defaulters ($7,600). The high-low group reported an average debt of $13,000. High-low borrowers were selected in part for their high debt level. People who had attended a four-year school and completed their degrees tended to have the highest level of student loan debt.

Monthly payments for all respondents were, on average, about $120 per month. The average payment for prior defaulters was $127 per month* and for high-low borrowers was $186 per month.

Although all respondents have student loans, most do not categorize them as their most important source of help in financing their educations. While about 35 percent of all respondents said that loans were the most important source of help (the most common answer), other sources such as parents (24 percent); self (17 percent); and grants (12 percent) were listed as most important by respondents.

The vast majority of respondents have assumed responsibility for repaying their own student loans. Only about 6 percent of all respondents (3 percent of prior defaulters and 5 percent of the high-low group) indicated that their parents were paying more than half of their student loans.

Less than 20 percent of all respondents said they had received counseling about their student loan repayment obligations when they left school. This finding is not surprising since the majority of borrowers in this study had left school before exit counseling requirements had been established for the Stafford loan program. Even fewer prior defaulters had received this type of counseling (7 percent).

* The higher monthly loan payment for prior defaulters, despite their lower student loan debt level, is attributed to the effect of interest being capitalized during the default period.

Table 2

Demographic Characteristics of Respondents

| | High Debt-Low Income N = 283 | Prior Defaulters N = 207 | All Respondents N = 1,442 |
|---|---|---|---|
| Family Income at time of loan application (1989 $'s) | $ 7,252 | $24,279 | $32,712 |
| Current Borrower Income (Current $'s) | 26,573 | 20,790 | 23,243 |
| Current Family Income (Current $'s) | 35,950 | 28,980 | 38,500 |
| Age (%) | | | |
| Less than 21 | 0 | 0 | 0 |
| 21-23 | 2 | 3 | 9 |
| 24-26 | 29 | 27 | 41 |
| 27-29 | 27 | 34 | 21 |
| 30-32 | 18 | 16 | 11 |
| 33-35 | 10 | 6 | 6 |
| 36-40 | 10 | 6 | 6 |
| 41+ | 6 | 7 | 4 |
| Sex (%) | | | |
| Female | 41 | 46 | 44 |
| Male | 59 | 54 | 57 |
| Spouse/Partner (%) | | | |
| Spouse | 38 | 44 | 39 |
| Partner | 13 | 13 | 9 |
| Neither | 47 | 40 | 50 |
| Race (%) | | | |
| White | 90 | 82 | 91 |
| Black | 3 | 6 | 3 |
| Hispanic | 1 | 4 | 1 |
| Asian | 4 | 1 | 2 |
| Indian | 0 | 0 | 0 |
| Other | 0 | 2 | 1 |
| Most Frequent Occupations (%) | | | |
| Social Sciences | 9 | 4 | 4 |
| Engineering | 7 | 3 | 7 |
| Computers | 6 | 4 | 7 |
| Nurse | 4 | 3 | 6 |
| Law | 9 | 2 | 3 |
| Other Business | 26 | 26 | 32 |
| Education | 6 | 0 | 5 |
| Other Professional/Non Trade | 11 | 10 | 8 |
| Secretary/Clerk | 2 | 9 | 6 |
| Other Trade* | 3 | 11 | 5 |
| Homemaker | 2 | 4 | 2 |

* See code book in Appendix 7

N.B. Rounding errors may occur.

Table 3

Education Characteristics of Respondents

| | High Debt-Low Income N = 283 | Prior Defaulters N = 207 | All Respondents N = 1,442 |
|---|---|---|---|
| Last School Type Attended (%) | | | |
| Private-4 | 55 | 32 | 50 |
| Public-4 | 34 | 27 | 27 |
| Private-2 | 3 | 10 | 5 |
| Public-2 | 2 | 11 | 6 |
| Vocational/Technical (includes proprietary) | 1 | 14 | 8 |
| Attendance (%) | | | |
| Mix | 17 | 24 | 16 |
| Part-Time | 1 | 8 | 4 |
| Full-Time | 82 | 67 | 79 |
| Highest Degree Obtained (%) | | | |
| Professional | 9 | 3 | 4 |
| Ph.D. | 8 | 3 | 3 |
| Masters | 24 | 6 | 13 |
| Bachelors | 51 | 36 | 52 |
| Associate | 2 | 14 | 10 |
| Certificate | 2 | 18 | 9 |
| None | 3 | 17 | 8 |
| Most Frequent Majors (%) | | | |
| Liberal Arts | 11 | 14 | 11 |
| Social Sciences | 11 | 9 | 7 |
| Fine Arts | 6 | 3 | 3 |
| Engineering | 10 | 3 | 8 |
| Science/Technical/Math | 7 | 3 | 7 |
| Computers | 5 | 8 | 5 |
| Nurse | 5 | 5 | 6 |
| Law | 9 | 3 | 3 |
| Other Business | 17 | 22 | 25 |
| Education | 5 | 5 | 5 |
| Other Professional | 5 | 6 | 5 |
| Cosmetology | 0 | 4 | 1 |

N.B. Rounding errors may occur.

Table 3
Education Characteristics of Respondents (cont'd)

| | | High Debt-Low Income N = 283 | Prior Defaulters N = 207 | All Respondents N = 1,442 |
|---|---|---|---|---|
| Date Left School (%) | | | | |
| Pre-1983 | | 0 | 5 | 1 |
| 1983 | | 0 | 12 | 1 |
| 1984 | | 0 | 20 | 2 |
| 1985 | | 21 | 23 | 14 |
| 1986 | | 31 | 14 | 29 |
| 1987 | | 24 | 12 | 26 |
| 1988 | | 15 | 3 | 19 |
| 1989 | | 3 | 5 | 5 |
| 1990 | | 2 | 5 | 4 |
| Education Satisfaction (%) | | | | |
| Extremely Satisfied | 1 | 40 | 26 | 34 |
| | 2 | 39 | 35 | 43 |
| | 3 | 17 | 25 | 18 |
| | 4 | 3 | 9 | 5 |
| Not at all Satisfied | 5 | 1 | 5 | 1 |
| Education Led to Job Expected (%) | | | | |
| Strongly Agree | 1 | 47 | 18 | 39 |
| | 2 | 23 | 20 | 25 |
| | 3 | 15 | 26 | 20 |
| | 4 | 8 | 17 | 9 |
| Strongly Disagree | 5 | 6 | 18 | 6 |
| Completed Last Degree Began (%) | | | | |
| No | | 10 | 40 | 14 |
| Yes | | 90 | 60 | 86 |
| Attended Graduate School (%) | | | | |
| No | | 51 | 75 | 69 |
| Yes | | 49 | 25 | 31 |

N.B. Rounding errors may occur.

Table 4

Financial Aid Characteristics
of Respondents

| | High Debt-Low Income N = 283 | Prior Defaulters N = 207 | All Respondents N = 1,442 |
|---|---|---|---|
| Total Student Loan Debt (Avg. $'s) | 13,225 | 7,598 | 8,168 |
| Monthly Payment Amount (Avg. $'s) | 186 | 127 | 120 |
| Number of Loans Taken (Avg. #) (Guaranteed by MHEAC) | 4 | 3 | 2 |
| Most Important Source of Help (%) | | | |
| Self | 11 | 16 | 17 |
| Parents | 15 | 10 | 24 |
| Loans | 45 | 46 | 35 |
| Grants | 13 | 12 | 12 |
| Relatives/Friends | 1 | 1 | 0 |
| Other | 1 | 1 | 2 |
| Exit Loan Counseling (%) | | | |
| No | 78 | 93 | 80 |
| Yes | 22 | 7 | 20 |
| Parents Pay 50%+ (%) | | | |
| No | 95 | 97 | 93 |
| Yes | 5 | 3 | 7 |

N.B. Rounding errors may occur.

Description of Respondent Attitudes - More than half of all NESLS II respondents said their student loans had not caused them any more hardship than they had expected; prior defaulters reported more hardship (72 percent).

Most respondents felt the benefits of student loans were worth whatever unpleasantness repayment has caused them. Almost three-quarters of all respondents and 72 percent of the high-low group expressed this positive attitude, and about 60 percent of the prior defaulters felt this way.

Most of the respondents said they had not changed their career plans because of their student loans (75 percent of all respondents and 71 percent of high-low group). Although prior defaulters reported somewhat more career changing, 56 percent of this group said they had not changed their career plans because of their student loans.

About two-thirds of all respondents and a similar proportion of those in the high-low group said they were aware of the debt they were accumulating when they took out their student loans. On the other hand, only 45 percent of the prior defaulters were aware of how much debt they were accumulating.

Well over half of all respondents at each level of borrowing indicated that they would borrow the same amount if they had to do it all over again, although the proportion decreases somewhat as the total debt amount increases. (Table 5A). As the amount borrowed increased, more respondents reported that they would borrow less if they were starting over again. About 38 percent of those who attended 2-year public schools and 35 percent of those who attended 4-year public schools claimed they would borrow less. With the exception of two-year public, over one-half of respondents from each type of school said they would borrow about the same amount and between 10 and 15 percent from each school type said they would borrow more than they had borrowed. (Table 5B).

Table 5A and 5B

**Think back to the time when you first started your education after high school. If you could begin again at that point in time, would you borrow?**

5A Percent who would borrow more or less by amount actually borrowed:

| | Much Less | A Little Less | About the Same | A Little More | Much More |
|---|---|---|---|---|---|
| Total Amount Borrowed: | | | | | |
| Less than $2,500 | 17 | 2 | 69 | 4 | 8 |
| $2,500-$5,000 | 19 | 9 | 55 | 12 | 5 |
| $5,001-$7,500 | 17 | 15 | 62 | 4 | 2 |
| $7,501-$10,000 | 12 | 15 | 64 | 5 | 3 |
| $10,001-$15,000 | 18 | 18 | 58 | 5 | 2 |
| $15,001-$20,000 | 19 | 14 | 61 | 3 | 2 |
| More than $20,000 | 24 | 15 | 53 | 2 | 6 |

5B Percent who would borrow more or less by last school attended:

| | | | | | |
|---|---|---|---|---|---|
| Last School Attended: | | | | | |
| Four-year private | 13 | 14 | 63 | 7 | 3 |
| Four-year Public | 20 | 15 | 55 | 7 | 4 |
| Two-year Private | 27 | 2 | 60 | 6 | 4 |
| Two-year Public | 23 | 15 | 47 | 12 | 3 |
| Vocational-Technical | 22 | 5 | 61 | 6 | 7 |

N.B. Rounding errors may occur.

When borrowers were asked to rank which loans they would pay first, most people would pay their mortgage/rent (96 percent) and car loan (89 percent) before their student loan. About 54 percent would pay personal loans and 39 percent would pay credit cards before their student loans. Most of the respondents in this study (80 percent) have non-education debt in addition to their student loans. About 26 percent have monthly non-education loan payments between $251 and $500 and 10 percent have non-education loan payments in excess of $1,000 per month. In fact, about 40 percent of all respondents indicated they were extremely or very burdened by these loan payments. However, 30 percent said they were not.

Less than half of all respondents said their student loans were a significant part of their monthly expenses while over 60 percent of prior defaulters and those in the high-low group shared this view. More than three-quarters of all respondents said they would use some of their monthly loan payment for savings if they did not have to pay their student loan; 28 percent said they would save all of it; 43 percent said they would use some of the money for food; and 36 percent said they would use some for housing.

Most respondents (71 percent) said that the availability of student loans was extremely or very important in continuing their education after high school (Table 6). The percentage of high-low group respondents who felt this way was even higher (82 percent). Over 60 percent of all respondents said loans were extremely or very important in enabling them to attend a particular school; 70 percent of the high-low group and 65 percent of the prior defaulters reported this.

Of those who completed their undergraduate degree, two-thirds said that loans were extremely or very important in permitting them to accomplish this. The high-low group (86 percent) and prior defaulters (74 percent) were even more likely to express this view. Completion rates, however, were considerably lower in the prior defaulter group. More than one-third of all respondents indicated that concern about debt prevented them from attending a more expensive school; however, almost half said that loans were not a factor in this decision (Table 7).

Table 6

How important was the availability of student loans in allowing you to:

| | Extremely Important | Very Important | Important | Somewhat Important | Not Important |
|---|---|---|---|---|---|
| Continue your education after high school? | | | | | |
| High-Low (%) | 58 | 24 | 7 | 4 | 7 |
| Prior Defaulters (%) | 51 | 24 | 11 | 10 | 4 |
| All (%) | 47 | 24 | 13 | 10 | 6 |
| Attend a particular school? | | | | | |
| High-Low (%) | 45 | 25 | 12 | 8 | 10 |
| Prior Defaulters (%) | 38 | 27 | 17 | 10 | 8 |
| All (%) | 39 | 23 | 16 | 10 | 12 |
| Stay in school to complete degree?* | | | | | |
| High-Low (%) N=254 | 64 | 22 | 6 | 4 | 4 |
| Prior Defaulters (%) N=126 | 52 | 22 | 11 | 4 | 11 |
| All (%) N=1,246 | 46 | 21 | 15 | 8 | 10 |
| Go to graduate school?** | | | | | |
| High-Low (%) N=137 | 67 | 16 | 7 | 1 | 9 |
| Prior Defaulters (%) N=47 | 55 | 15 | 11 | 2 | 17 |
| All (%) N=436 | 54 | 17 | 7 | 5 | 17 |

* Based on 86% who completed undergraduate degree.
** Based on 31% who attended graduate school.

N.B. Rounding errors may occur.

Table 7

**How important was concern over borrowing in <u>preventing</u> you from:**

| | Extremely Important | Very Important | Important | Somewhat Important | Not Important |
|---|---|---|---|---|---|
| Attending a more expensive school? | | | | | |
| High-Low (%) | 24 | 15 | 17 | 14 | 30 |
| Prior Defaulters (%) | 31 | 21 | 11 | 11 | 25 |
| All (%) | 22 | 16 | 14 | 13 | 36 |
| Staying in school to complete your degree?* | | | | | |
| High-Low (%) N=34 | 59 | 10 | 10 | 3 | 20 |
| Prior Defaulters (%) N=85 | 44 | 16 | 10 | 8 | 20 |
| All (%) N=216 | 27 | 19 | 13 | 9 | 33 |
| Going to graduate school?** | | | | | |
| High-Low (%) N=136 | 19 | 8 | 12 | 3 | 48 |
| Prior Defaulters (%) N=46 | 23 | 13 | 12 | 5 | 42 |
| All (%) N=418 | 17 | 12 | 12 | 10 | 49 |

* Based on 14% who did not complete their undergraduate degree.
** Based on 69% who did not attend graduate school.

N.B. Rounding errors may occur.

Description of Economic Behavior of Respondents - Three-quarters of all borrowers live away from their parents' home. Slightly more of those in the high-low group (89 percent) and in the prior defaulter group (83 percent) have moved out on their own. The higher age of borrowers in the high-low group probably contribute to this.* About 29 percent of all borrowers and 31 percent of those in the high-low group own their own home. Home ownership is less common among the prior defaulter group (19 percent). Nationally, home ownership for people in the 25-32 year-old category is 45 percent. While this study obtained a lower home ownership proportion, it is important to realize the NESLS II sample is a group of recent college attendees/graduates, 31 percent of whom also went to graduate school. Moreover, the NESLS II sample is slanted toward the lower end of this age range and includes 24 year-olds for whom home ownership is less likely. The national proportion is for a broad range of people and education levels and includes states where ownership rates tend to be higher than in Massachusetts and where housing prices are considerably lower.

More than one-third of the prior defaulter group have children, whereas about one-quarter of all respondents and one-quarter of the high-low group have children.

Most borrowers own a car (89 percent of all respondents). Prior defaulters and high-low borrowers were slightly less likely to own a car (80 percent and 85 percent respectively). About 63 percent of car owners had purchased their car new; 65 percent of the high-low group and about one-half of the prior defaulters had done this. The percent of new car owners for the total sample was 56 percent. Typically a car loan had been taken out to finance these new car purchases.

Significant Factors and Other Relationships - This section organizes the results of the regression analyses and of comparisons made between selected survey items according to the major questions that prompted this study. These comparisons, although not necessarily statistically significant in themselves, help in explaining the results of the regression analyses. Description of the statistical analyses used appears in Appendix 8 and additional statistical data are given in Appendix 9.

* Half of the total sample, but only 30 percent of the high-low and defaulter groups are under 27 years of age; 26 percent of the high-low group are over 33 years of age as compared to 19 percent of defaulters and 16 percent of the total sample.

**Does having a student loan affect career choice?** For the majority of borrowers in this study (75 percent), it does not. However, people with higher than average debt levels and higher monthly payments are more likely than others to believe that they changed their career plans because of borrowing. Those with very high debt levels ($20,000 or higher) were more likely to say they changed their careers, and those below $2,500 were somewhat less likely to report changed career plans. Between these ranges, higher debt did not seem to affect career plans. Another factor having a large influence on responses to this question is degree completion, with those who completed their degrees significantly less likely than others to say they changed their career plans. Family background income was also significant, with those from lower income families more likely to say they changed their career plans. Finally, prior default was significantly related to the belief that student loans affected career choice, although this relationship is not as strong as that obtained for degree completion, high monthly payment, and low family background income. Those who attended two-year public or vocational schools (27 percent of whom were prior defaulters) were somewhat more likely than others to say that student debt had caused them to change their career plans.

**Do people believe that borrowing for education was worth the effort of repayment?** Most people (over 70 percent) feel that borrowing for education was worth the burden of repayment. Those with higher than average debt levels and monthly payments were significantly less likely than others to believe that the benefits of educational borrowing were worth the costs. However, other factors carry more weight in determining this response. Fundamentally, those who were not satisfied with the quality of their education think the loans aren't worth it. Nearly three-quarters of those who said their loans were worth it were satisfied with the quality of the education they had received while only 1 percent were not. Similarly, those who felt loans were worth it also felt that their education had led to the type of job they had expected.

Those who have been unemployed in the past, married people and females were also less likely to appreciate the benefit of the loans. Surprisingly whether or not respondents are currently working did not have a significant impact on their response to the question about the benefits of these student loans. But among those who do not work, people with higher family incomes were more likely than those with lower incomes to think the benefits of student loans were worth the unpleasantness of repayment.

**Do people who are repaying their student loans feel that their loan has caused them more hardship than they had expected?** More than half of all borrowers in this study did not. Those with high debt levels and high monthly payments were much more likely than others to say they were experiencing unexpected hardship. Those who were not satisfied with the quality of their education were also much more likely to say they were experiencing unexpected hardship. In fact, 67 percent of those who were most dissatisfied with their education also reported the strongest perception of hardship.

One interesting significant relationship noted was that people with higher non-education monthly payments* were less likely to report more hardship than expected from their student loans. Moreover, a separate analysis showed more than half of the people who felt more hardship than expected from their student loans also felt extremely burdened by their non-education loans.** These are not necessarily contradictory findings but rather they point out that subjective impressions of burden and hardship are not at all perfectly associated with more objective factors such as monthly payment amount.

Hardship did not seem to be related to the type of school attended. People who said they changed their careers were more likely than others to report hardship. Those with higher current household incomes were much less likely to give this response. In fact, next to high student debt level and monthly payment, low current income made the greatest significant contribution to feeling unexpected hardship.

**Are borrowers burdened by their student loans?** A substantial proportion of all respondents indicated that student loans did not influence decisions to move out of their parents home (78 percent); to purchase a home (64 percent); to buy a car (69 percent); to get married (86 percent); and to have children (79 percent). These results notwithstanding, loans did have a somewhat more negative impact for borrowers in the high-low group and in the prior defaulter group (Table 8). However, home costs in New England were extremely high in the years 1985-1990 when most graduated.

* Monthly dollar amount for non-education loans.
** Perception of burden regarding non-education loans.

Table 8

**How important have your education loans been in causing you to delay any of the following?**

| | Extremely Important | Very Important | Important | Somewhat Important | Not Important |
|---|---|---|---|---|---|
| Moving out of your parents home | | | | | |
| High-Low (%) | 5 | 5 | 10 | 6 | 74 |
| Prior Defaulters (%) | 13 | 5 | 13 | 9 | 61 |
| All (%) | 5 | 7 | 10 | 10 | 68 |
| Purchasing your own home | | | | | |
| High-Low (%) | 22 | 17 | 15 | 17 | 29 |
| Prior Defaulters (%) | 36 | 12 | 17 | 17 | 18 |
| All (%) | 14 | 11 | 12 | 19 | 44 |
| Purchasing your own car | | | | | |
| High-Low (%) | 12 | 10 | 19 | 22 | 37 |
| Prior Defaulters (%) | 20 | 15 | 19 | 15 | 30 |
| All (%) | 7 | 9 | 15 | 19 | 50 |
| Getting Married | | | | | |
| High-Low (%) | 6 | 6 | 8 | 8 | 73 |
| Prior Defaulters (%) | 12 | 5 | 10 | 10 | 63 |
| All (%) | 3 | 4 | 7 | 8 | 78 |
| Having Children | | | | | |
| High-Low (%) | 11 | 10 | 4 | 12 | 64 |
| Prior Defaulters (%) | 16 | 6 | 10 | 13 | 60 |
| All (%) | 6 | 6 | 9 | 9 | 70 |

N.B. Rounding errors may occur.

People with higher debt levels and higher monthly payments are more likely than others to report that they delayed buying a house because of their education debt. An even stronger relationship to delaying this type of purchase was noted for those who experienced more hardship than expected. In other words, people who feel burdened by their loans seem to believe that their debt is interfering in their decisions.

As with home purchase, people with high debt levels and high monthly payments were significantly more likely than others to say they postponed buying a car because of their education debt. Believing that debts caused more hardship than expected was again highly related to believing the debt caused a delay in major purchases.

People who are married, those who have never been unemployed, and those with high current household income are most likely to own cars. Total debt levels are not significant determinants of car ownership, but higher monthly payments do slightly decrease the probability of respondents owning cars.* Those who don't feel unexpected hardship are most likely to own cars. However, not owning a car probably contributes to the perception of hardship, rather than the other way around.

Similarly, higher debt levels are not significant in determining whether people who own cars took out loans to finance them or not. However, higher monthly payments do have a statistically significant impact, but that impact is extremely small. Those with higher current household incomes, those who have never been unemployed, and those who don't believe their loans are causing them unexpected hardship are most likely to have taken out car loans than others in the sample.

People with higher debt levels are definitely more likely than others to perceive their debts as burdensome. It would be surprising if this were not true. But, as with NESLS I, the differences in debt burden have very little impact on consumption patterns.

* Quantitatively, the impact of higher monthly payments is very small. Only differences in payment levels of about $100 make any measurable difference in the probability of owning a car. This suggests that small increases in monthly payments would not have a noticeable impact on car ownership rates. We cannot predict the impact of doubling or tripling payment levels. The findings about the impact of payment levels on other consumer decisions are similar.

Low parental income as reported on loan applications significantly reduces the probability of owning a home and significantly increases the probability of saying that career plans were changed because of borrowing for education. But the impact of this factor on owning a car and feeling the benefits of student loans outweigh the drawbacks of repayment were quite small. Moreover, those with low parental incomes perceive only slightly more hardship than others in repaying their loans.

Open-Ended Comments - The NESLS II questionnaire contained a section on the last page for open-ended comments. About 30 percent (555) of respondents took advantage of this opportunity. The comments varied in content from brief expressions of thanks for the student loans to two page histories of positive or negative experiences in obtaining a loan.

The open-ended comments were grouped into broad categories relating to loan servicing, consolidation, interest rates and deductibility, deferments, loans and societal benefits, older student concerns and others.

About one-third of the comments were positive. One man wrote:

> "Student loan/grant programs helped me to realize my potential. I have gone from being a taxi driver and bartender to a president of a high-tech small business."

Another woman stated:

> "I was a welfare mother. With little or no encouragement from the state agencies who support this population I achieved my goal of educating myself. I am now gainfully employed and I own my own home."

The benefits to borrowers with other difficulties are pointed out by this comment:

> "As a hearing impaired individual, it was difficult for me to obtain the job of my choice. But now I am gainfully employed. Making the loan payments is rather pleasant knowing that I get [a] credit [rating] and [my] money's worth in education."

There were positive statements about banks and loan servicing organizations which helped them through personally trying stages of life when making loan payments was difficult or when deferments or loan consolidation were needed. Others explained that without loans they would not have been able to attend college. Many wrote that they fully support the student loan program and believe that:

> "It is far more fruitful for the government to make loans to the students in this country than it is for the U.S.A. to be loaning money ... for political reasons."

The most frequently expressed need was for more counseling before, during and after obtaining a loan. One woman wrote:

> "I would have appreciated it if someone had counseled me on the financial obligation I would have in relation to starting salaries of the career I chose."

And another was more specific:

> "I did not give much thought upon borrowing the money that it would have such an impact on my life after college. If I were more aware of the actual dollar amount of the loan payments I may have borrowed much less. When I consider what I had to pay to support myself after college (the payments for rent, car insurance, etc.), a student loan payment of over one hundred dollars per month made meeting these payments extremely difficult."

Those who desired more loan counseling were surprised at the amount of interest to be paid, the length of time it would take to pay back their loans and the size of their monthly payments in relationship to their starting salaries.

Several respondents expressed dismay over those who did not pay back their loans.

> "I am grateful for an education and I realize that continuing education is a privilege. Those who default ruin it for everyone! I think the laws and regulations should be more strict" and "I feel strongly that people who do not repay their educational loans, but have the means, should be prosecuted for recovery of principal, interest and costs of recovery."

Most of the critical comments appeared to arise from one source - the borrower did not fully understand at the time he/she took the loan the full implications of obtaining a loan. Some did not seem to understand that it was a loan, they thought it was "free" money; the realization of an obligation came when a coupon book arrived in the mail. Many did not understand that the interest was compounded.

> "The loans I took out were used to pay for off-campus housing, living expenses and books. I would have worked a part-time job and saved a greater amount of money if I knew that at 27 years of age I would still be paying them off. The interest is killing me."

A number of complaints were received about the companies that collect payments once a student is out of school.

> "My borrowing institution ruined my credit rating because of faulty management of my student loans. Two repayment books were sent to me totalling over $10,000 . . . I only borrowed $5,000. After 3 long years . . . my new management corporation was effective, efficient and understanding in helping me regain my dignity and the loan is almost totally repaid to my satisfaction. If I had this to do again I would not take out a loan and this has influenced my continuing on with a higher degree. Going to school was easier than repaying my debt."

Several individuals dislike the automated answering service used by loan servicer companies and wish for a human being to speak to rather than punching numbers into a machine. Others questioned why making larger payments than what is required caused such problems.

> "Every time I try to pay a few months in advance due to long travel periods, the entire sum is credited for one month and hate mail follows telling me I am late. Allow payment in advance."

Some writers voiced complaints about the attitudes of customer service personnel, especially after a lender sale to a secondary market.

> "Student loan organizations are not courteous and don't treat borrowers with respect. I have gotten several nasty notices from agencies saying I was behind on payments when I really wasn't - their bookkeeping wasn't in order because of selling loan accounts."

A few wrote of problems that arose when loans were sold and payments were "lost" in the transfer causing paperwork headaches for the borrowers who then had to supply cancelled checks as proof of payment.

A number of borrowers told of difficulties in borrowing from more than one bank and trying to consolidate the loans so only one payment would be needed, or, conversely, of borrowing from one bank but having their loans serviced by two different institutions at the same time.

> "I was very happy to get my student loan . . . but I was not happy with the way they arranged my payments. The bank sold half of the loans and half they kept in-house. When I called them to see if they could combine the two loans so that I could make one payment instead of two they refused to do it."

Several borrowers' complaints are epitomized by this brief statement:

> "A student should be able to combine all student loan payments (so they all go to one place) without paying a higher interest rate."*

* The current law allows consolidation of loans, but raises the loan rate to 9 percent.

Over twenty people wrote that they have real difficulty in paying their loans and meeting all other financial obligations. Lower paying jobs, high housing costs and having children were all factors contributing to the difficulty. Several people who were teachers or in social services wrote that they could no longer afford their chosen profession.

> "I feel that certain professions should be considered as hardships (i.e., education!). As a result of my various loans, I was forced to leave teaching and pursue a less fulfilling career merely because it pays better."

Summary and Comparison with NESLS I - The results of NESLS II confirm and reinforce the findings of the first survey reported in January 1988, namely that most borrowers currently repaying their loans have generally positive attitudes about their loans and that these loans are not preventing them from engaging in normal economic behaviors. About the same proportion of NESLS II respondents are experiencing some difficulty and delaying some purchases as in NESLS I. Importantly the current study included prior defaulters which the first study did not. Although debt levels and monthly payments are somewhat higher now, the study finds no evidence that most borrowers are experiencing any more discomfort today than they did three years ago. Indeed the average debt level (monthly payment as a percent of income) on an annualized basis was virtually the same between the two studies, 3.6 percent for NESLS I and 3.8 percent for the current study.

NESLS II suggests that the size of monthly loan payments has more impact on the consumption patterns of repayers than does the amount of total debt. This applies to car ownership, to car loans, and to home ownership. In general, small increases in current monthly payment amounts appear to have a negligible effect on the consumption patterns of repayers.

Other key elements of the two studies are compared below:

How have attitudes about student loans shifted between NESLS I and NESLS II?

| | NESLS I (1988) | NESLS II (1991) |
|---|---|---|
| o | 50% little/no hardship | 54% |
| | 27% experienced hardship | 25% |
| o | 68% benefits outweighed disadvantages | 74% |
| | 14% did not outweigh | 10% |
| o | 78% had not changed career plans | 75% |
| | 11% did change | 15% |
| o | 76% did not delay moving out | 78% |
| | 13% did delay | 12% |
| o | 62% did not delay buying home | 63% |
| | 23% did delay | 25% |
| o | 69% did not delay buying car | 69% |
| | 17% did delay | 16% |
| o | 84% did not delay getting married | 86% |
| | 9% did delay | 7% |
| o | 81% did not delay having children | 79% |
| | 12% did delay | 12% |

How did the spending patterns of borrowers change between NESLS I and NESLS II?

| | NESLS I | NESLS II |
|---|---|---|
| o | 63% live away from home | 75% |
| o | 19% own home | 29% |
| o | 85% own car | 89% |
| o | 48% new car purchase | 56% |
| o | 66% loan to purchase a car | 72% |

To what extent is there a change in the attitude-behavior relationship between the two studies?

| | NESLS I | NESLS II |
|---|---|---|
| o | Borrowers with relatively high payments were not more/less likely to own homes, cars or live with parents than those with relatively low payments. | o Still true |
| o | Gap exists between perceptions of student debt burden and actual postgraduation consumption. | o Still exists. |

## Conclusion

The most striking feature of these results is their similarity. As noted before, all percentages can vary by ± 3 percent for the total sample due to chance. This applies equally to NESLS I and to NESLS II. NESLS II added the prior defaulter subgroup to its sample because they had experienced serious difficulty with repayment, yet the relative proportion of positive and negative attitudes remains largely unchanged between the two studies. While a small increase (11 percent to 15 percent) in changing careers because of student loans is noted, this small difference is attributable to the prior defaulter group who were more likely to say they change their careers. To fully understand the dynamics of career change, future researchers should investigate the career change behavior of all college graduates in order to obtain a baseline against which to evaluate the degree of change noted in this study. Such a study would take into consideration that many factors such as age, maturation, professional experiences, job openings, and economic conditions may contribute to decisions about changing one's career.

Both the 1988 and the 1991 studies depict a majority of borrowers with positive attitudes toward their student loan experience. They appreciate the fact that student loans enabled them to gain access to postsecondary education and consider their loans important tools in strengthening academic persistence. These borrowers do not perceive student loans as impediments to age-appropriate decisions. The fact that 29 percent own their own homes seems to suggest that it is clearly possible to pay back student loans and think about buying a house. A future study could compare these results to a sample of college graduates who did not have to borrow to finance their educations. Such a study would allow us to evaluate this figure.

In 1991 as in 1988, a minority of borrowers in repayment, roughly about 30 percent, report they are burdened by their student loans. Some of these people felt that the benefits of student loans were not worth the effort of repaying them, and some said they had delayed making economic choices because of their student loans. These borrowers should be followed up three years later to see if these unfavorable opinions remain unchanged.

Consumption patterns are an important indicator of genuine burden. Those who are heavily burdened would be expected to own fewer cars, to be living with parents, to stay single and to have no children. Instead most borrowers in this study are living on their own and buying cars, some are getting married and having children. A sizable number of borrowers, considering their age and geographic location, are buying homes. The 1991 economic behaviors are more positive than those reported in 1988, certainly no less so.

Feeling burdened and actual postgraduation consumption are two very different factors for most borrowers in both NESLS I and NESLS II. The gap between attitude and behavior remains a fascinating issue to study so that we can improve our understanding of the impact of student loans on borrowers' lives.